

The heirs to the Reagan revolution say the free-market principles that have held sway for almost three decades in the U.S. are being undermined. And many of them blame the Bush White House.

This week's announcement that the Treasury will buy equity stakes in nine banks for \$125 billion capped a month of the deepest government intervention in the economy in seven decades. More is likely to come, as lawmakers extend oversight of financial institutions and other industries.

"The future of the free-market movement and limited-government cause is in jeopardy," said Pat Toomey, president of the Club for Growth, a Washington-based group that pushes for lower taxes and less government.

Libertarians, supply-siders and tax-cut advocates differ on the degree of danger they say the latest measures pose to the nation's economy. The views range from the apocalyptic -- that the U.S. faces an extended period of socialism -- to resignation about the return of big government and hope that voters will soon tire of it.

They agree, though, that the Bush administration is the main culprit for the betrayal of President Ronald Reagan's philosophy, which has underpinned the Republican Party for a generation.

"It was brought about by George W. Bush abandoning any kind of Republican principles," said William Niskanen, chairman emeritus of the Cato Institute, a libertarian Washington research group.

A Coffin on Reagan

Representative Darrell Issa, a California Republican, last month said Bush's \$700 billion rescue of the financial markets would "put a coffin on top of the coffin of Ronald Reagan."

To be sure, Bush and Treasury Secretary Henry Paulson have publicly bemoaned the latest

moves, calling them contrary to their own economic philosophies even while arguing that they were necessary.

“I'm a strong believer in free enterprise, so my natural instinct is to oppose government intervention,” Bush said in a nationwide television address on Sept. 24. “Under normal circumstances, I would have followed this course,” he said. “But these are not normal circumstances.”

Representative John Campbell, another California Republican, defended the administration's plan, saying any president would make similar decisions under the circumstances.

“I'm not sure what else could be done,” said Campbell, a member of a conservative House faction known as the Republican Study Committee. “These are practical decisions about what is the best way to fix the credit and liquidity crisis.”

“Tax cuts are not going to fix this.”

Before the Bailout

Bush spokesman Tony Fratto said: “No one has fought harder and defended economic freedom more than President Bush. Period. What our friends need to understand is that a collapsed market isn't a free market. It's an invitation to those who oppose economic freedom to push for actual government control, not the rescue we're implementing.”

Still, Bush's Republican critics say the president was pushing for a bigger government role long before the rescue. They point to moves ranging from the \$168 billion stimulus plan the administration negotiated with Democrats in February, to the 2003 Medicare prescription-drug program, which is expected to cost hundreds of billions of dollars over the next decade.

Bush inherited a surplus, yet his budgets have resulted in deficits and have added \$1.7 trillion to

the national debt.

"He's governed more as Nixon," who imposed wage-and- price controls and spent billions of dollars on war and social programs, said Grover Norquist, president of Americans for Tax Reform. Norquist, who has said his goal is to get government "down to the size where we can drown it in the bathtub," said he "long ago stopped being disappointed by Bush."

Inescapable Irony

While most Republicans in the House opposed the bailout, a majority of Republican senators favored it, as did the party's leadership in both chambers.

"The irony hasn't escaped most of us," said Representative Jeff Flake, an Arizona Republican who voted against the rescue package. "We've preached the gospel of free markets forever, and to throw it aside that quickly?"

Some conservatives say even when Bush is gone, his entanglement of the government with private industry will be hard to undo.

"Government ownership, once in place, will not be so easy to disestablish," said Alvin Rabushka, who served on Reagan's Tax Policy Task Force, which helped lay the groundwork for efforts to slow the growth of government spending, lower marginal tax rates and deregulate the economy.

'A New Era'

"A new era of democratic socialism has begun in the U.S.," said Rabushka, now a senior fellow at the Hoover Institution in Stanford, California. "The new order will last a decade or two until the public clamors for a restoration of private sector allocation of money and credit."

In the near term, Democratic lawmakers will begin weighing broad new regulation of financial markets when Congress reconvenes, House Financial Services Committee Chairman Barney Frank said in an interview last month.

Democrats are expected to increase their majorities in both houses of Congress in the November election. And Democrat Barack Obama continues to widen his lead over Republican John McCain in the presidential race.

"The pressure will be against free markets for a while," said Gary Becker, a University of Chicago professor who won the 1992 Nobel Prize for economics. We may see "more helping out companies when they get into trouble, more anti-free trade, and those would be dangerous," said Becker.

Free markets and limited government will eventually prevail, the Club for Growth's Toomey says, yet it may take a while. "From a regulatory point of view, the 1930s were a disaster, and they didn't end until the 1980s. That's the danger."